VOSS CAPITAL

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Key Statistics	
52 Week Range	$1.99 - 4.71
Avg Daily Vol (3 Mo)	457,383.4
Market Cap (Millions)	238.0
Ent Value (Millions)	464.1
Shares Out (000)	94,089.0
Dividend Yield	0.0%
Float	69.7%

This idea is a company that is a levered roll-up with a history reckless capital allocation, is on the brink of technical default, with free-falling revenue, deteriorating margins, terrible disclosures and confusing segment data, and a history of pervasive related party transactions.

In what is likely an apocryphal story, J.L. Austin, Brithish philosopher of English was giving a lecture at Oxford with another noted philosopher, Sidney Morgenbesser in the audience. Austin said "we know that in many instances in language two negatives make a positive." So for example if I say Tesla is never not rising, it means Tesla is always rising. Austin continued, "But, there is no language where two positives make a negative." Morgenbesser immediately disproves him with a quip from the back of the room,"Yeahhh, rigggghht." In the case of investing we know that multiple negatives make for some of the most positive situations. The laundry list of negatives I mentioned very accurately describes my idea, Merge Healthcare, but I think it's a long with 65% upside in a conservative status quo scenario.

Core Thesis

MRGE has declined about 60% from its peak in 2012 as software license revenues have collapsed and the company has come dangerously close to tripping a total leverage debt covenant. It is now one of the cheapest stocks in the software universe at 1.9x EV/Sales and 3.0x EV/Maintenance Revenues. While there are some issues the company needs to address, we believe there are explainable reasons for the decline that will reverse in the back half of 2014/2015, and at the very least will serve to stabilize the business.

Additionally, we believe these tough times have forced the company to make the hard choices necessary to improve long term profitability. Newly implemented and re-instated CEO, Justin Dearborn, with a successful track record, has already shown signs of improving profitability by abandoning profitless segments, and is working towards improved segment transparency.

In a bear case where stabilization doesn't occur, the company still has a hidden gem of an asset in their Merge eClinical OS product that, if sold, could act as a deleveraging escape pod and alleviate concerns over a default. We think that they will begin reporting this product as a separate line item later this year, an action that should help shed light on the value as investors can then easily compare eClinical OS to its pure play public comp, Medidata Solutions (MDSO).

In a more bullish scenario where the industry headwinds flip to tailwinds (post ICD-10 deadline on October 1) and their new SaaS product (iConnect) becomes material to revenues (~$50 million in complimentary high margin revenues as management has insinuated), the stock has well over 100% upside. In this case we believe the narrative on the stock will completely change as debt concerns dissolve and new growth drivers bring back the growth investors who left the stock over the past year.

Company Overview

Merge is a software company in the healthcare IT sector with two-thirds of their revenue recurring. Their core business is providing software to image intensive healthcare groups such as radiology and cardiology. Their products allow these imaging centers to access and archive images, such as X-Rays and MRI studies, attach them to a patient's electronic medical record, and then share them across healthcare systems with patients and primary care physicians. They are a leader in interoperability software solutions that allow image sharing across healthcare enterprises and health exchanges via their platform called iConnect. Their second segment called DNA (Data & Analytics), includes the eClinical OS mentioned above which provides cloud-based FDA clinical trial management software.

Background & Analysis

The situation is somewhat complicated and hence why we believe there is an opportunity.

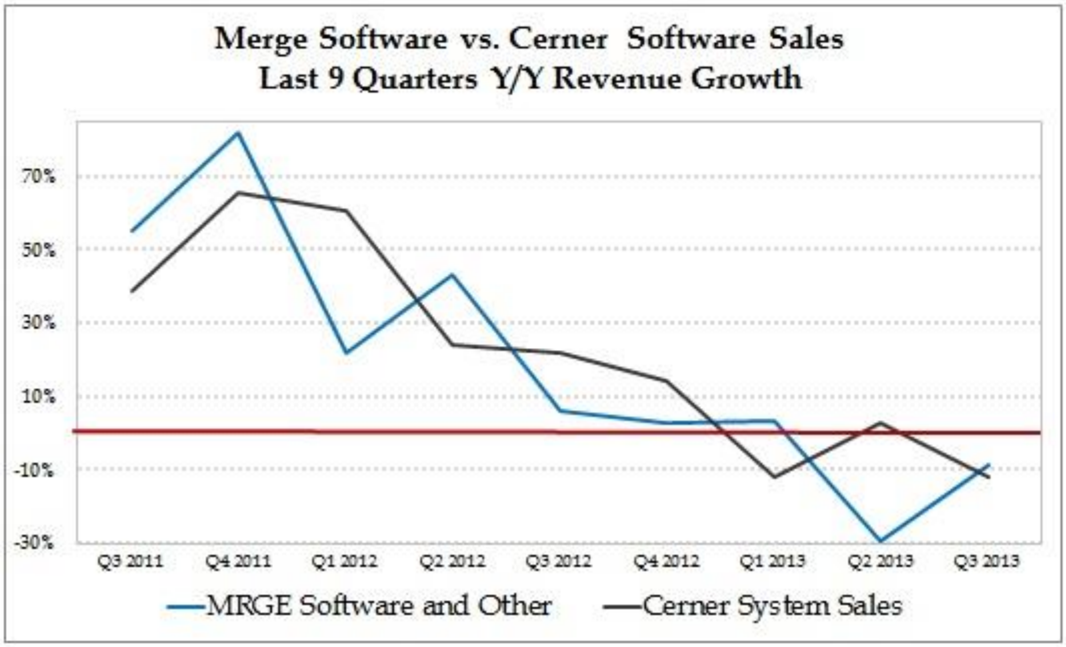
The company is a levered roll-up with a history of poor capital allocation (evidence: current EV is about ½ of cumulative capital spent on M&A the last few years), has many moving pieces/new products, segment data and reporting disclosures that are confusing, and results that have been abysmal (doesn't screen well; it has only been marginally net income positive in one year out of eight). Software sales in the most recent periods have been in free-fall (down ~40% year-over-year, if stripping out hardware from "software & other" income statement line item) and gross margins hit an all-time low in Q3 due to a sales mix-shift to lower margin hardware.

Software sales: There has been a what may prove to be a temporary lull in revenue due to the upcoming October 1st deadline for hospitals to shift to ICD-10 implementation. ICD-10 sets coding for medical diagnoses and patient procedures for CMS reimbursement. This nearly singular regulatory focus within the healthcare industry has caused Merge to badly miss estimates the last few quarters and the shares came down hard (a ~40% decline after Q2 2013 earnings) as they came dangerously close to breaching a Net Debt/TTM EBITDA covenant on their term loan. The primary IT beneficiaries of the ICD-10 implementation are Revenue Cycle Management providers, an area where Merge is admittedly relatively weak.

Reason for Optimism: We believe when this deadline for ICD-10 passes, and hospitals and physician groups turn their IT investment focus to yet another government mandated shift-- "Meaningful Use Stage 2" metrics, Merge is very well positioned to capture an outsized proportion of healthcare IT spending. As part of Obama's Health Information Technology for Economic and Clinical Health (HITECH) Act, within the American Recovery & Reinvestment Act of 2009, healthcare providers were forced to invest in electronic medical record keeping, with increasingly tough standards over time, and they must show "meaningful use" in incremental stages. In 2014, Stage 2 is kicking in, which requires physicians to give access to electronic records including any related images, directly with patients. Merge is a leader in this area. The standards for Meaningful Use Stage 2 attestation have become increasingly difficult and only ~8% of healthcare IT vendors have received certification, down from >98% for Stage 1 (source: Citigroup initiation on ATHN/Medical Group Management Association).

Merge's SaaS solutions allow imaging centers to effectively and securely share images and attach them to a patient's EMR. The coming forced shift to Meaningful Use Stage 2 will accelerate the adoption towards Merge's products in 2H 2014 (there will be 1%/year overall reimbursement rate cuts for up to five years for hospitals not passing pre-set MU Stage 2 metrics by the end of 2014). Hospitals are shifting away from departmental divides to enterprise wide software solutions for imaging that works seamlessly across departments, another theme that should benefit growth in Merge's iConnect.

By looking across the Healthcare IT space, we corroborated the fact that software sales have been weak/negative across many of the major providers, so it is unlikely that Merge is losing market share.



The table below shows Allscripts' and McKesson's software sales as well. Merge is probably the worst, but not materially in our view.

	Q-2	Q-1	Q-0	Average
Merge Software	**3.6%**	**-29.2%**	**-8.8%**	-11.5%
Cerner System	-11.9%	2.7%	-11.9%	-7.0%
Allscripts Software	-11.4%	-12.5%	-2.4%	-8.8%
McKesson Software	4.2%	-9.2%	-26.2%	-10.4%

Many of the other larger healthcare IT companies have been focused on EMR as opposed to the imaging interoperability aspect, so in many cases they partner with Merge and Merge's imaging products work in conjunction with their EMR platform (e.g. recent partnership announced with Athena Health).

If the company were losing market share we would be even more concerned about the revenue declines. As shown in the table above, though, we believe the market in general has been terrible.

Transition to SaaS: Another major contributor to the recent revenue misses is Merge's business model shift from selling software licenses, with the bulk of revenue recognized in the period of the sale, to a SaaS model based on monthly subscriptions. This hurts revenue in the near term, but ultimately creates a more stable cash flow stream and increases the value of each customer over a lifetime. A recent example is a $5 million contract signed with the Mount Sinai Hospital system. This was their largest contract in quite some time, and the revenue will be recognized ratably over a sixty month period as opposed to ~80% of it being recognized in the quarter it was signed. Unfortunately it is very tough to quantify this shift overall because management does not offer clear guidepost and metrics, such as pricing differentials and estimated number of clients changing over. We do know however that their main growth driver, iConnect, will be sold purely on a SaaS basis and we can monitor backlog as evidence of the success of the transition. The shift to the SaaS model should ultimately be successful as there is less upfront investment required from a customer while MRGE also wins as the lifetime value of the customer is higher.

Reason for Optimism: Wall Street should love the SaaS shift story, but management doesn't do a good job of explaining this, in our opinion. To cherry pick the quintessential example, Adobe went through a similar business model shift—although one executed flawlessly. Their 2015 EPS estimates in the last 18 months have collapsed by 41.9%, but the stock is up >100% (run EEG function for 2015 EPS estimates on Bloomberg). The stock declined immediately after the SaaS transition announcement. However, communication on SaaS benchmarks and hitting those benchmarks has allowed their 2015 Earnings multiple to expand from 8.5x to 34x—partly based on the frothy tech market, but also based on optimism that the subscription transition will be successful and the market correctly ascribing a higher multiple on the steadier cash flow stream.

Debt Covenant

This is probably the most important reason for MRGE's collapse. MRGE currently has ~$216.4 million in net debt and a 5.3x Debt/Adjusted EBITDA. Their max leverage covenant currently sits at 5.5x and will drop to 5.0x by the end of Q3 2014, ratcheting down a further quarter turn every quarter until bottoming at 4.0x by 12/31/2015. We believe the covenant overhang has been the biggest drag on the company as many investors in healthcare IT would obviously prefer a high growth, no debt name to a low growth, high debt name.

Reasons for Optimism:

- The company is committed to using all available FCF for debt pay down, and in the last quarter prepaid $9.7 million on the term loan and on the Q4 earnings conference call announced they had already pre-paid $3 million more in January.
- The company has recently refinanced and reduced their interest rate from 11.75% to 6.0%, which will save ~$16 million a year in interest expense.
- The CEO has shown adeptness in cost cutting and removing unprofitable hardware business lines, such as the doctor's office self-registration Kiosk segment. We believe the true EBITDA margin is closer to 20% at a minimum, and can move higher when the industry stabilization takes place. In the last quarter, we believe the company has moved past an inflection point in EBITDA margins as cost savings are beginning to get realized and their very low margin kiosk business (which they have exited) has completed liquidation.
- Merge eClinical OS has no synergies with the core business (different end users) and could be unwrapped relatively easily in a fire sale in a more draconian scenario if rapid de-leveraging is required. A quick sale of the eClinical OS division at 4.0x sales (20% CAGR sales growth, mid-30s EBITDA margins guidance), and if using all proceeds to de-lever they could prepay over half the term loan and take pro-forma Net Debt/EBITDA to under 3.25x. In our conversations with the CEO, it is clear that they are "very unemotional" about selling this division.
- Although not fully disclosed, it is made clear that the definition of adjusted EBITDA for the sake of the covenant calculation is much less stringent than their typical adjusted EBITDA. Thus they are in somewhat better standing than appears.
- They've alluded to the fact that they could pretty easily seek a waiver given the well-known industry slowdown, but it is probably unnecessary as they are pre-paying the term loan at a pretty rapid clip.
- They have $8mm in non-core equity investments we believe they can also liquidate.
- They don't include this in any sort of guidance and we don't count on it either, but they allude to the fact they can continue to shrink working capital.
- If they go from ~98 DSOs to the industry average of ~70, accounts receivable could shrink from $62 million to $42 million, possibly providing a one-time $20 million boost to cash flow over the next few quarters.
- Just this $20 million if used to de-lever would provide 7.5% return to equity holders assuming EV doesn't change.

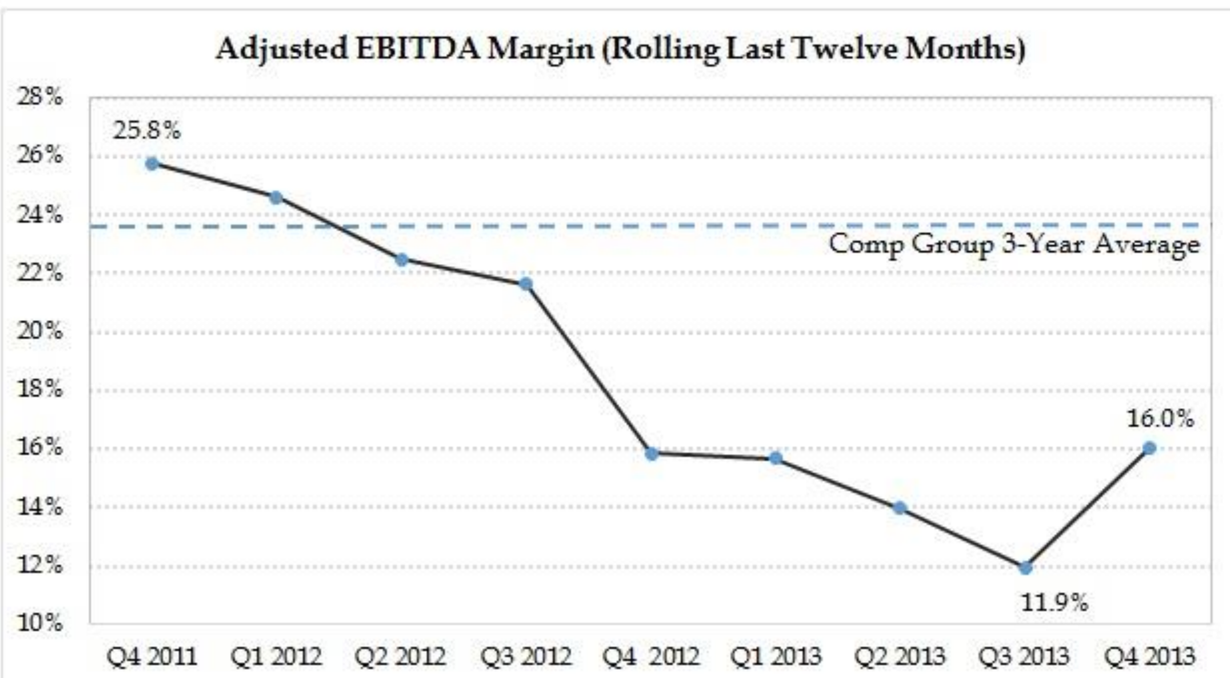
40% Upside from Debt Reduction Plan and Maintaining Multiple

EV/EBITDA FY 2015

(assumes base case 2015 Adj. EBITDA of $48,761)

2014 Debt Reduction (000s)		9.0x	9.75x	10.5x	11.25x	12.0x
$	17,500	6.3%	21.9%	37.5%	53.1%	68.7%
$	20,000	7.3%	22.9%	38.5%	54.1%	69.7%
$	22,500	8.3%	23.9%	39.5%	55.1%	70.7%
$	25,000	9.3%	24.9%	40.5%	56.2%	71.8%
$	27,500	10.4%	26.0%	41.6%	57.2%	72.8%
$	30,000	11.4%	27.0%	42.6%	58.2%	73.8%
$	32,500	12.4%	28.0%	43.6%	59.2%	74.8%

We believe the company can pay off between $17.5 million and $32.5 million of debt in 2014, providing between 20-40% returns to equity holders if the forward enterprise multiple is at 10.5x our base case 2015 EBITDA assumption of ~$48.7 million.



An important piece of the thesis is that we believe EBITDA margins have troughed, driven by a decrease in mix to low margin hardware (exiting the kiosk business), effective cost management, and our projected trough in software sales. A pickup in the industry and even just a leveling off of revenue could drive EBITDA margins materially higher, in our view. For a point of reference, the comp group's three year average is 23.6%, which Merge should be able to match or exceed within a few years.

Stepping back and thinking strategically about Merge:

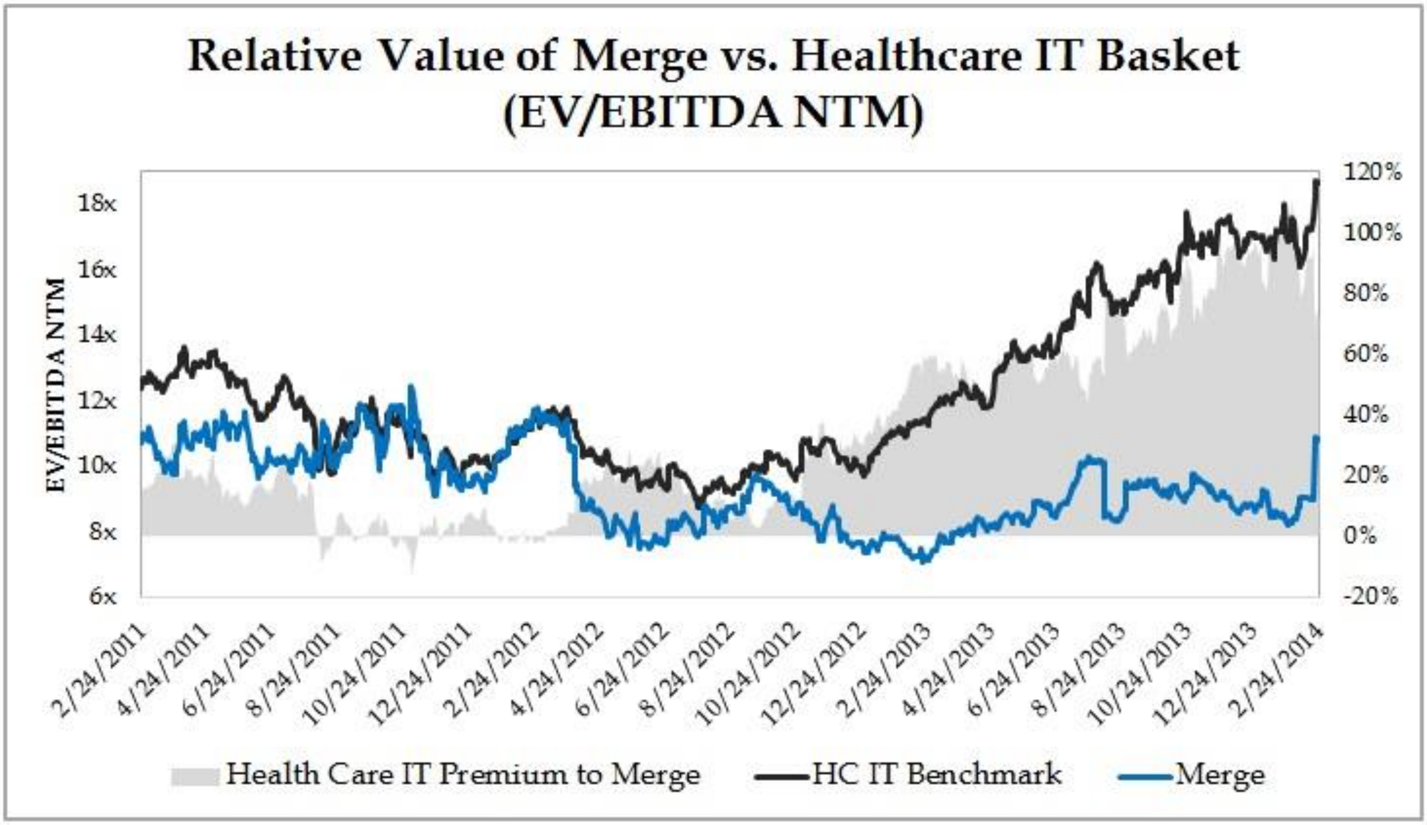
- **Is this a competitively strong company?** I think the answer is yes. Merge Cardiology PACS and Merge Hemo software were both named best in KLAS for 2013. Merge was rated the #8 healthcare IT software provider overall and received the 2013 North America Frost & Sullivan Award for Product Leadership in Interoperability Solutions for its iConnect platform. iConnect Enterprise Archive was also ranked the #1 vendor neutral archive by IHS two years in a row. Additional conversations back up the accolades.
- **Is it a structurally attractive business model?** Yes—it's a very stable and scalable, asset light, subscription based software company with a high FCF conversion rate and an increasing majority of revenue becoming recurring. They are generating over $100 million in pure maintenance revenue a year that is fairly stable (and high margin), without even looking at their growing subscription business. Their pure software business (ex-hardware) has 90%+ gross margins, as a good software business should and the overall mix shift should continue to improve with the shift to SaaS due to the growth of the various iConnect products.
- **Is it in an industry with secular growth?** Yes—and the growth in the industry in this case is mandated by the HITECH Act, with non-compliance having major negative consequences for hospitals and ambulatory care groups. The regulatory deadlines in the back half of 2014 also act as a catalyst to re-ignite revenue growth.

Growth Drivers

- Pent up demand on PACS side could drive traditional software sales higher as most systems installed are beyond their useful life and need updating.
- **Merge eClinical OS**: *This is the real hidden gem.* This is a truly cloud-based clinical trial management platform. If garnering a valuation on par with pure public trading comp Medidata Solutions, this segment alone would be worth more than MRGE's current enterprise value. We happen to think MDSO is in bubble territory and will actually compress over time (see Heffer504's write-up from July 2013). Merge eClinical OS is growing as fast as MDSO and is higher margin. If MRGE explores a spin-off, divestiture, or carve-out and receives an EV/Sales multiple of 5.0x (about half that of MDSO), it would be worth 30% of MRGE's current EV. As stated, in case revenue opportunities don't pan out for other segments, this segment can act as a safety valve in a sale situation to help alleviate leverage issues. An MDSO short sized to match MRGE's DNA segment can also be utilized as a solid relative value pair-trade.
    - Medidata is viewed as the number one competitor for Merge eClinical OS by the CEO. Management comments that Oracle is becoming less of a competitive threat. Merge eClinical OS has 90% of the functionality of Medidata's Rave. This product is 100% SaaS.
        - There are 5,000-6,000 new clinical trials a year and Merge eClinical is 100% SaaS and built-to-suit.
        - They will take Phase 1 trials for potential $10,000 in revenue, while customers say Medidata won't return phone calls for small Phase 1 drug trials.
        - Merge says they're undercutting Medidata on pricing (another reason we think an MDSO short is a good pair trade).
        - They will begin to report the eClinical numbers separately on a quarterly basis and rename the DNA segment. They may also start disclosing the number of site/clinics under contract to show the potential volume.
        - Clients can get Merge's true cloud based eClinical software up and running for new trials more quickly than Medidata's Rave which still requires substantial software engineer input. Merge claims to have a very high hit rate on customers in head-to-head competition with Rave.
        - MDSO is currently valued around 9.5x EV/2014 sales. They guide for 35% EBITDA margins long term, as does Merge for their eClinical OS. If eClinical were valued at 5.0x

EV/Sales (using our 2015 estimates of $40.1 million) it would be worth $201 million (alternatively one could think of this value, if at 35% EBITDA margins, at under 15x EV/EBITDA compared to MDSO's at >30x 2015 EBITDA). This would be >40% of the current EV. At a MDSO equivalent valuation, eClinical OS would be worth 70% of the current EV. Our base case, however, is that eClinical OS is worth ~$200 million.

- iConnect Interoperability solutions: iConnect Network/iConnect Share/iConnect Access: in general, allows for image sharing between imaging centers, general care physicians, and hospitals. Allows iConnect users to "hit a button" and send a report up to Merge Honeycomb Archive, reports can be integrated into any Electronic Medical Record interface provider, and Merge keeps images in storage in the cloud, always accessible from any internet connected device.
- Merge Honeycomb: the revenue model for Merge Honeycomb is transaction based. Merge will be paid $0.65-0.70 per report ("study") generated by the radiology clinic, along with a fee rate of about half that for any additional carbon copies sent.
  - There are 80 million studies going through just their current ambulatory installed base on the radiology side, so going forward Merge Honeycomb has the potential be a $50 million + high margin revenue opportunity. We ascribe no revenue growth to this in our base case scenario.
  - New regulations mandate that healthcare providers must keep at least two copies of all patient images. Merge will also act as a "dropbox for doctors" and get paid a nominal fee for backing up and maintaining images in the cloud.
  - Need Meaningful Use Stage 2 and thus EMR providers to get up to speed to be able better implement Honeycomb. Honeycomb revenue could start kicking in in a meaningful way in Q3 2014.

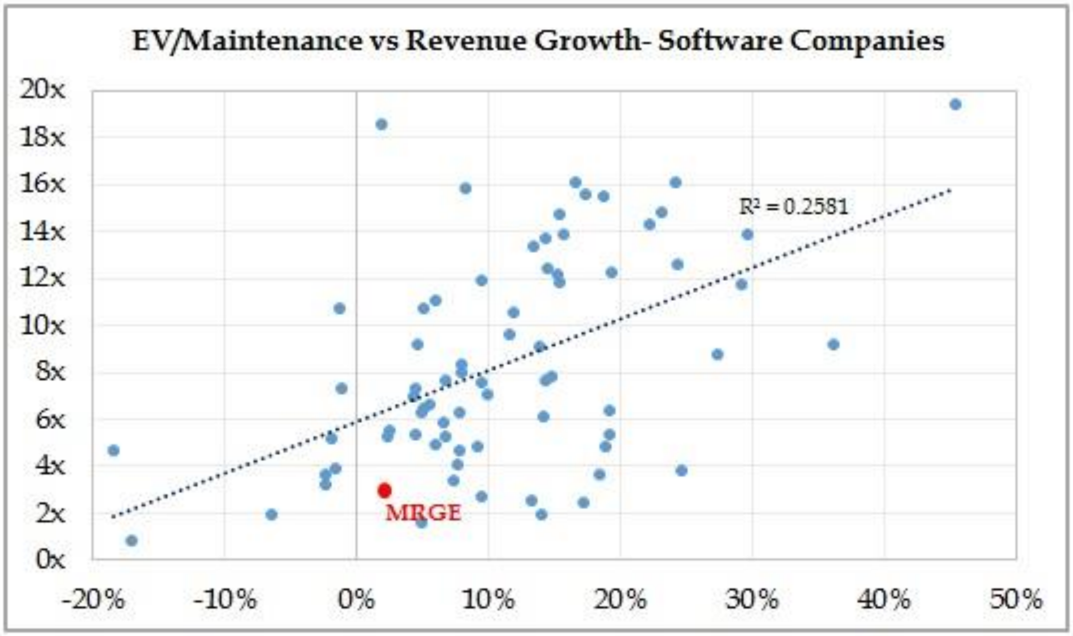


Valuation

The stock is very attractive on both a relative and absolute basis. MRGE has one of the lowest EV/Maintenance Revenue multiples in all of software—including low-to-no-growth software companies, and we forecast the stock is at an EV/Forward FCF of around 12x, not including any one-time working capital adjustments, which could prove substantial.

Despite the whole industry suffering in the software space, Merge's shares have been disproportionately de-rated most likely due to the leverage. This chart directly above shows a basket of Healthcare IT stocks on a forward EV/EBITDA basis and Merge's growing discount. On a variety of other metrics the discount is equally or more pronounced. Throughout most of their history Merge traded on par with their peers, so as margins expand and they return to revenue growth and quickly de-lever, the valuation gap could lessen.

When comparing MRGE to negative/flat growth healthcare software peers on an EV/Recurring Maintenance Revenue basis, MRGE commands less than half the going multiple (3.0x versus 6.3x for Quality Systems and 7.3x for Allscripts), so even without a return to growth, the extreme discount could shrink as leverage comes down and margins expand.



Company	EV/Maintenance	Growth Y/Y (last Q)
CA	5.2x	-1.6%
Synopsys	5.3x	-5.2%
Progress Software	5.3x	0.4%
Quality Systems	6.3x	-1.0%
Allscripts	7.3x	-0.8%
Merge	**3.0x**	**1.6%**

When comparing MRGE to negative/flat growth healthcare software peers on an EV/Recurring Maintenance Revenue basis, we can see that MRGE commands less than half the multiple, so even without a return to growth, the extreme discount could shrink as leverage comes down and margins expand.

Merge Segments	LTM	Base Case Multiple	Implied Value
Healthcare Maintenance & EDI	$107,223	3.5x	$375,281
DNA Subscription Business	$30,046	5.0x	$150,230
Other Software & Services Revenue	$52,698	2.5x	$131,745
Hardware Revenue	$41,700	0.3x	$10,425
Total	**$231,667**	**2.9x**	**$667,680**
Net Debt			$216,400
Implied Market Cap Value			$451,280
Fully Diluted Share Count			97,500
Implied Price			$4.63
Implied Upside			**90.4%**

The best way to value Merge may be a on a sum of the parts basis. We ascribe a 3.5x sales multiple to their steady recurring maintenance piece, which is still several turns below negative-growth trading comps and appears to be a valuation floor for comparable transactions. We ascribe a 5.0x trailing multiple on the eClinical OS subscription business, the rationale being pure-play public comp Medidata Solutions is at a 9.5x forward multiple. We think MDSO is overvalued, and Merge's eClinical has significantly higher EBITDA margins and is growing nearly as fast, but we still just put half the multiple on for conservatism. We put 2.5x on other core software revenue (on a trailing basis, so assume zero growth), where there is likely pent-up demand to replace antiquated PACS systems. Lastly we ascribe minimal to no value for their non-software sales. For each of these as shown we are assuming zero growth, despite guidance for eClinical growing at 20%+ this year and their main growth driver iConnect and Honeycomb just now ramping up. We simply assume that once it becomes clear what eClinical's sales are that it commands a higher valuation, and once it is clear that they will de-lever quickly and EBITDA margins will continue to expand even with no revenue growth, the only other assumption is the maintenance revenue multiple expands half a turn (still well below no-growth comps).In sum Merge is a levered software company that's missed estimates due to temporary industry headwinds, but a regulatory deadline will act as a catalyst for re-acceleration of growth in the back half of 2014, and provide secular growth potential. It's a structurally attractive, asset-light business model that is highly scalable with high FCF conversion, and has an increasing majority of its revenue from recurring subscriptions. The stock is at an extreme relative discount and could see major multiple expansion upon removal of default worry and a return to revenue growth. They've re-fi'd their debt which alone will provide $16 million in annual interest expense savings this year. The cost structure overall will be down over $20 million in 2014 year-over-year.

The *margin of uncertainty* built in is the numerous levers the company can pull and the lack of growth and conservatism baked in throughout our assumptions. We believe the stock's narrative will morph in a positive way throughout 2014 as growth initiatives and SaaS potential come back into focus and there is 60%+ upside in a conservative, status quo scenario.

Other Important Points

- The former Chairman, who owns 28% of the firm, resigned in August with the explicit intent to make a bid for the entire company. This is a low probability call option. The Chairman had been milking the company for all sorts of consulting fees, such as $250,000 for every acquisition done, so to have him gone for now is a positive in our opinion.
- Recent management shake-up: Justin Dearborn has been re-instated as CEO. He was previously CEO from 2008 – 2011 then was President of the DNA segment. He was successful at turning the company around from 2008 onward and grew DNA segment from near scratch to mid-30s % EBITDA margins and 20%+ revenue CAGR. He now has the added sense of urgency created by coming dangerously close to the leverage covenant.Hardware mix issues should also prove temporary as they have been exiting certain areas that are the least profitable; we have a variant view on positive gross margin expansion over the next few quarters and think gross margin estimates will inevitably rise by upwards of hundreds of basis points.
    - Previous CEO, Jeff Surges, was originally going to be brought on just as a sales guy but then demanded the CEO title in order to leave his post as president of sales at All Scripts. Since three years have gone by, a non-compete with Allscripts has now rolled-off and Merge is just now able to potentially do business together again.
- Forward Guidance: last week they issued detailed formal guidance for the first time in a long time, something we view as good for increased transparency and a sign of improved confidence.Shareholder turnover--evaluating the types of owners the last few quarters it appears that growth oriented funds were the ones rushing to get out in Q4 and Q1 so far, and more value investors have entered the fund.
    - Guidance is optically weak and revenue looks substantially lower than 2013, but if you adjust by pulling out the zero margin kiosk business, the midpoint of guidance is for slight growth (+ ~0.5%).
    - EBITDA growth guidance is for +8-21% year-over-year, even with revenue guidance flat, pointing to the improving EBITDA margins to around 19-20%.
    - We believe management is being very conservative given their past track record of poor forecasting. They are hyper-aware that they've lost all credibility with Wall Street and are extremely gun shy, so they're likely setting the bar low.

- Looking at some comps' guidance, such as Allscripts' 3-year revenue growth range guidance of 5-8% (though we can't be sure how much of this is supposed to be organic) makes MRGE's 0.5% growth pale in comparison.

- R&D as a percentage of sales has remained between 12.5%-14.8% and is on the high end of the industry, so we don't think Merge is skimping on needed product development investments.
- DNA backlog: up 49% YoY last quarter and accelerating on a sequential basis as well.

Risks

We think the main risk is that in our future Utopian Society, that Tesla's technologies may eliminate the need for diagnostic imaging or they decide to start storing images on their batteries and Model S's act as mobile databases. Also, we may be overestimating the competitive positioning, as it is unclear to us at this point if hospital consolidation will benefit or hurt them. We think it will help as they're the leader in interoperability, meaning their solutions work across an entire large enterprise. Third, all stocks exposed to the whims of government have regulatory risk. For instance, the government could choose to extend the Meaningful Use Stage 2 deadline, which could delay the tailwinds we anticipate from the iConnect product. Fourth, they recently had to lower their stated DNA backlog due to a rogue marketing employee faking sales contracts, so there could be another black swan or fraud like that if it wasn't just one lone "rogue employee." Finally, a risk is that the entire healthcare IT space is very frothy so it's possible the entire comp group declines and Merge never really gets any upside juice from multiple expansion. This risk can be mitigated somewhat by hedging a MRGE long with a pair trade--possibly either by shorting some combination of MDSO, HSTM, or MDRX.

Appendix:

More on MDSO versus Merge eClinical OS

	Medidata	eClinical
2012-2014 Rev CAGR	25%	21%
EBITDA Margin (FY0)	25%	~25%
EBITDA Margin (LT)	35%	35%
EV/Sales (2015)	8.5x	???
EV/EBITDA (2015)	34x	???

Sensitivity on Sales Prices for the eClinical Group

EV/EBITDA Multiple

		15x	20x	25x	30x	35x	40x
	10%	$ 60	$ 80	$ 100	$ 120	$ 140	$ 161
	15%	$ 90	$ 120	$ 150	$ 181	$ 211	$ 241
	20%	$ 120	$ 161	$ 201	$ 241	$ 281	$ 321
EBITDA Margin	**25%**	$ 150	$ 201	$ 251	$ 301	$ 351	$ 401
	30%	$ 181	$ 241	$ 301	$ 361	$ 421	$ 482
	35%	$ 211	$ 281	$ 351	$ 421	$ 492	$ 562
	40%	$ 241	$ 321	$ 401	$ 482	$ 562	$ 642

	Multiple	Margin	EV/Sales
Bear Case	15.0x	20%	3.0x
Base Case	20.0x	25%	5.0x
Bull Case	25.0x	35%	7.0x
Medidata Val	35.0x	35%	8.5x

% of Current EV if Sold For Price Above

EBITDA Margin	15x	20x	25x	30x	35x	40x
10%	13.0%	17.3%	21.7%	26.0%	30.4%	34.7%
15%	19.5%	26.0%	32.5%	39.0%	45.5%	52.0%
20%	26.0%	34.7%	43.4%	52.0%	60.7%	69.4%
25%	32.5%	43.4%	54.2%	65.0%	75.9%	86.7%
30%	39.0%	52.0%	65.0%	78.1%	91.1%	104.1%
35%	45.5%	60.7%	75.9%	91.1%	106.2%	121.4%
40%	52.0%	69.4%	86.7%	104.1%	121.4%	138.8%

Upside to MRGE if eClinical Sold and Proceeds Used to Pay Down Debt

EV/EBITDA Multiple

EBITDA Margin	15x	20x	25x	30x	35x	40x
10%	8.6%	14.3%	20.0%	25.7%	31.5%	37.2%
15%	17.2%	25.7%	34.3%	42.9%	51.4%	60.0%
20%	25.7%	37.2%	48.6%	60.0%	71.4%	82.8%
25%	34.3%	48.6%	62.9%	77.1%	91.4%	105.7%
30%	42.9%	60.0%	77.1%	94.3%	111.4%	128.5%
35%	51.4%	71.4%	91.4%	111.4%	131.4%	151.3%
40%	60.0%	82.8%	105.7%	128.5%	151.3%	174.2%

Key Assumptions

Merge ex eClinincal 2015 EBITDA Multiple	8.5x	*Stock derates due to loss of a main growth driver*
Merge ex eClinical EBITDA Margin	23.6%	*Comp group average, back to historical level*
Tax Rate on Proceeds from eClinical	30%	*Approximate*
Current Market Cap (millions)	$ 246.00	
Current Debt (millions)	$ 236.43	

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